



**STRATEGIC  
PLAN**

**FISCAL YEARS 2010-2013**

**Submitted this 1<sup>st</sup> day of July 2009**

A handwritten signature in black ink, appearing to read "J. Anderson", followed by a long horizontal line extending to the right.

**Jeffrey R. Anderson, Director**

## **I. Mission, Vision, Values**

*The mission of the Idaho Lottery is to responsibly provide entertaining games with a high degree of integrity to maximize the dividend for Idaho Public Schools and the Permanent Building Fund.*

*The vision for the Idaho Lottery is to become the highest performing jurisdiction in North America.*

### ***Values - Our Fundamental Operating Principles:***

- We will operate the Idaho Lottery in accordance with the spirit and letter of the law that established its purpose.
- We will conduct business in an ethical and honest manner at all times.
- We will continuously strive to exceed the expectations of our customers, each other, and our community.
- We will be personally responsible for our individual performance.
- We will work diligently toward continuous process improvement.
- We will pursue clear, concise, and consistent communication with each other, our vendors, our retail customers, and the stakeholders in state government.
- We will commit to operational excellence in all disciplines.
- We will resolve to deliver performance results that exceed our business plan and industry benchmarks.
- We will cooperate with each other to create an environment that is conducive to great work.
- We will treat each other with mutual respect and cooperation.
- We will have fun.

## **II. Goals**

1. Protect the security and integrity of our games
2. Responsibly increase net revenues
3. Rigorously manage costs
4. Guard the honesty of charitable gaming

## **III. Objectives**

**1 – Protect the security and integrity of Idaho Lottery games** by continuing to meet or exceed Multi-State Lottery Association (MUSL), National Association for State and Provincial Lotteries (NASPL), and internal Idaho Lottery security standards.

We conduct thorough background checks of prospective Lottery and vendor employees (as well as having the option for similar retailer background checks) for criminal, financial, and conflict of interest issues that could affect the integrity of our games.

The Idaho Lottery Security Division will continue to investigate and prosecute theft and fraud relating to Lottery games as well as assist retailers with loss prevention.

**2 – Responsibly increase net revenues** by (1) diligently working to improve the net game revenue from our portfolio of products, (2) enriching retailer relations, (3) extending distribution channels, (4) improving the customer experience, (5) gaining a better understanding of the marketplace through research, and (6) continuing the distribution of next generation of Player Activated Terminals (PAT).

**2.1 – Lottery game revenue currently comes from three authorized play styles:**

- Draw-style games – *Powerball PowerPlay, Wild Card, Idaho Pick 3, Hot Lotto Sizzler, Double Play Daily, and Idaho \$1,000,000 Raffle*
- Instant ticket games – *Scratch™ Games*
- Break-open instant ticket games – *PullTabs*

Net game revenue varies by game, subject to player prize expense and the cost of goods sold. *Scratch™* games and *PullTabs* have higher prize payouts and overall costs than draw-style games. In order to increase net game revenues, we will increase total sales, work to increase the ratio of draw-style games to *Scratch™* games and *PullTabs*, actively manage gross margins on all games, and implement comprehensive branding initiatives.

**Draw-style games** – increase overall game sales and as a percentage of total sales by leveraging the strength of the *Powerball* brand in responsibly promoting the portfolio of draw-style games, recruiting additional retail outlets, promoting *The Works* (draw-style product bundling), promoting sales of the *Powerball PowerPlay* and *Hot Lotto Sizzler* options, offering the third annual *Idaho \$1,000,000 Raffle*, introducing an additional Idaho-only Raffle, and augmenting the product line-up with a new draw-style game.

|                             | <u>2009</u>          | <u>2008</u>         | <u>2007</u>          | <u>2006</u>         | <u>2005</u>          |
|-----------------------------|----------------------|---------------------|----------------------|---------------------|----------------------|
| Powerball PowerPlay         | \$36,787,378         | \$39,471,389        | \$38,292,403         | \$44,709,233        | \$30,040,342         |
| Wild Card                   | \$3,152,691          | \$4,191,160         | \$6,371,182          | \$3,255,698         | \$3,194,824          |
| Idaho Pick 3                | \$1,881,223          | \$1,840,395         | \$1,421,235          | \$1,212,833         | \$1,190,309          |
| Hot Lotto Sizzler           | \$4,132,812          | \$2,760,090         | \$0                  | \$0                 | \$0                  |
| Double Play Daily           | \$357,058            | \$0                 | \$0                  | \$0                 | \$0                  |
| Raffle                      | \$2,500,000          | \$2,500,000         | \$0                  | \$0                 | \$0                  |
| <b>Total Sales</b>          | <b>\$48,811,162</b>  | <b>\$50,763,034</b> | <b>\$46,084,820</b>  | <b>\$49,177,764</b> | <b>\$34,425,475</b>  |
| Change from prior year      | <b>(\$1,951,872)</b> | <b>\$4,678,214</b>  | <b>(\$3,092,944)</b> | <b>\$14,752,289</b> | <b>(\$5,105,477)</b> |
| Percentage of Product Sales | 35.0%                | 37.2%               | 35.3%                | 37.5%               | 30.3%                |
| Percentage Sales Change     | -3.8%                | 10.2%               | -6.3%                | 42.9%               | -12.9%               |

**Scratch™ games** – increase sales by responsibly promoting the “*Play Can’t Wait*” branding campaign, recruiting additional retail outlets, continuing to introduce unique and entertaining play formats and styles, arresting the downward trend in \$1 and \$2 games, implementing a core-game strategy by price-point, managing the gross margin on

the product portfolio, continuing to improve in-store product presentation through our Retailer Standards of Excellence Program, and increasing product turnover.

|                             | <u>2009</u>         | <u>2008</u>         | <u>2007</u>         | <u>2006</u>         | <u>2005</u>         |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| One-dollar games            | \$8,964,352         | \$10,695,038        | \$11,488,607        | \$13,376,481        | \$15,386,911        |
| Two-dollar games            | \$8,644,994         | \$8,167,900         | \$8,825,982         | \$9,730,284         | 10,907,352          |
| Three-dollar games          | \$23,294,262        | \$29,599,329        | \$29,893,590        | \$31,190,340        | 31,112,193          |
| Four-dollar games           | \$0                 | \$0                 | \$0                 | \$0                 | 799,360             |
| Five-dollar games           | \$23,715,485        | \$13,419,210        | \$14,239,072        | \$10,777,774        | 6,499,258           |
| Seven-dollar games          | \$578,851           | \$6,182,442         | \$7,508,788         | \$6,281,898         | 3,292,725           |
| Ten-dollar games            | \$12,762,390        | \$9,946,570         | \$5,232,300         | \$3,993,800         | 4,008,460           |
| Fifteen-dollar games        | \$6,834,601         | \$6,376,095         | \$6,014,520         | \$5,636,340         | 5,740,395           |
| Twenty-dollar games         | \$3,594,960         | \$0                 | \$0                 | \$0                 | \$0                 |
| <b>Total Sales</b>          | <u>\$88,389,895</u> | <u>\$84,386,584</u> | <u>\$83,202,859</u> | <u>\$80,986,917</u> | <u>\$77,746,654</u> |
| Change from prior year      | \$4,003,311         | \$1,183,725         | \$2,215,942         | \$3,240,263         | \$9,230,483         |
| Percentage of Product Sales | 63.3%               | 61.6%               | 63.7%               | 61.8%               | 68.5%               |
| Percentage Sales Change     | 4.7%                | 1.4%                | 2.7%                | 4.2%                | 13.5%               |

**PullTab games** – increase sales by recruiting additional commercial and charitable retailers through responsibly managing our full service contract with ticket printer International Gamco, Inc.

|                             | <u>2009</u>        | <u>2008</u>        | <u>2007</u>        | <u>2006</u>      | <u>2005</u>        |
|-----------------------------|--------------------|--------------------|--------------------|------------------|--------------------|
| PullTabs                    | \$2,424,828        | \$1,695,570        | \$1,243,740        | \$966,360        | \$1,325,250        |
| <b>Total Sales</b>          | <u>\$2,424,828</u> | <u>\$1,695,570</u> | <u>\$1,243,740</u> | <u>\$966,360</u> | <u>\$1,325,250</u> |
| Change from prior year      | \$729,258          | \$451,830          | \$277,380          | (\$358,890)      | \$152,760          |
| Percentage of Product Sales | 1.7%               | 1.2%               | 1.0%               | 0.7%             | 1.2%               |
| Percentage Sales Change     | 43.0%              | 36.3%              | 28.7%              | -27.1%           | 13.0%              |

## **TOTAL PRODUCT SALES SUMMARY**

| <b>SALES BY PRODUCT</b> | <u>2009</u>          | <u>2008</u>          | <u>2007</u>          | <u>2006</u>          | <u>2005</u>          |
|-------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Draw Games              | \$48,811,162         | \$50,763,034         | \$46,084,820         | \$49,177,764         | \$34,425,475         |
| Scratch™ Games          | \$88,389,895         | \$84,386,584         | \$83,202,859         | \$80,986,917         | \$77,746,654         |
| PullTab Games           | \$2,424,828          | \$1,695,570          | \$1,243,740          | \$966,360            | \$1,325,250          |
| <b>TOTAL SALES</b>      | <u>\$139,625,885</u> | <u>\$136,845,188</u> | <u>\$130,531,419</u> | <u>\$131,131,041</u> | <u>\$113,497,379</u> |
| Change from prior year  | \$2,780,697          | \$6,313,769          | (\$599,622)          | \$17,633,662         | \$4,277,766          |
| Percentage Sales Change | 2.0%                 | 4.8%                 | -0.5%                | 15.5%                | 3.9%                 |

**2.2 – Enrich retailer relations** by improving our Retailer Advisory Board meetings throughout the state to gain feedback on our performance, responsibly managing the retailer incentive program, and developing a more effective training program for retail managers and clerks to ensure they are always fully trained in selling Lottery products.

**2.3 – Extend distribution channels** by adding 100 new retail outlets, including but not limited to, age-controlled trade styles with *PullTab* vending machines, traditional retail locations, and non-traditional locations such as big box stores.

**2.4 – Improve the customer experience** through the introduction of, among other initiatives, the *How to Play (HTP) Network* and the Idaho Lottery Standards of Excellence Program. The *HTP Network* is an on-line tutorial on how to play our games that will debut in summer 2009. The Standards of Excellence Program is the Lottery's retail improvement program designed to bring consistency of brand presentation at the transaction point. It consists of Six Points of Reference for retail locations: (1) outside signage; (2) building signage; (3) inside signage; (4) point of purchase; (5) game display; and (6) customer service and retailer training.

**2.5 – Continue to utilize responsible market research** for insight into Lottery players' interest in our brand/product offerings and implement actionable plans for creating and responsibly promoting entertaining games.

**2.6 – Continue to deploy Player Activated Terminals (PAT)** that offer both Scratch™ games and draw games with a goal of 300 machines in the field by July 1, 2010.

**3 – Rigorously manage costs** by controlling and lowering the expense of operating the Lottery through negotiating favorable vendor contracts for services, creating operational efficiencies, and exercising continuous process improvement.

#### **Idaho Lottery Performance Trend:**

|                             | <b><u>FY-2009</u></b> | <b><u>FY-2008</u></b> | <b><u>FY-2007</u></b> | <b><u>FY-2006</u></b> | <b><u>FY-2005</u></b> |
|-----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Sales Revenue               | 139,625,885           | 136,845,188           | 130,531,419           | 131,131,041           | 113,497,379           |
| Other Revenue               | <u>946,965</u>        | <u>1,408,955</u>      | <u>1,620,178</u>      | <u>653,134</u>        | <u>601,604</u>        |
| <b>Total Revenue</b>        | <u>140,572,850</u>    | <u>138,254,143</u>    | <u>132,151,597</u>    | <u>131,784,175</u>    | <u>114,098,983</u>    |
| Prize Expense               | 84,186,242            | 81,463,579            | 78,875,202            | 76,679,037            | 69,593,162            |
| Other Expenditures          | <u>21,495,390</u>     | <u>21,191,890</u>     | <u>21,771,869</u>     | <u>21,405,295</u>     | <u>20,316,386</u>     |
| <b>Total Expenditures</b>   | <u>105,681,632</u>    | <u>102,655,469</u>    | <u>100,647,071</u>    | <u>98,084,332</u>     | <u>89,909,548</u>     |
| Income Before Transfers     | \$34,891,218          | \$35,598,674          | \$31,504,526          | \$33,699,843          | \$24,189,435          |
| Dividends                   | \$35,000,000          | \$34,750,000          | \$34,000,000          | \$33,000,000          | 26,000,000            |
| Total Net Assets, Beginning | <u>475,012</u>        | <u>(373,662)</u>      | <u>2,121,812</u>      | <u>1,421,969</u>      | <u>3,232,534</u>      |
| Total Net Assets, Ending    | \$366,230             | \$475,012             | <b>(\$373,662)</b>    | \$2,121,812           | \$1,421,969           |

**4 – Guard the honesty of charitable gaming** by fairly, but rigorously, enforcing licensing and oversight of charitable bingo and raffle operators.

## IV. Performance Measures

The most effective measures of an enterprise operation such as the Idaho Lottery are its performance to plan as reported in the statement of revenues, expenditures, net income, and internal yardstick criteria.

Internal yardsticks include comparing our performance to the industry as a whole and to a peer group of like jurisdictions. The criteria includes, but may not be limited to, our performance compared to the mean and median percentage change in: retailers per capita, dividend change, dividend to sales, advertising to sales, sales per capita, administration costs to sales, overall sales, draw-style game sales, *Scratch™ Games* sales, prize expense to sales, and product mix. The peer group is comprised of Kansas, Maine, Minnesota, Montana, Nebraska, New Mexico, South Dakota, Tennessee, and Vermont.

## V. Bench Marks

### Idaho Lottery Operational Benchmark Measures:

|                          | <u>FY-2010</u>      | <u>FY-2011</u>      | <u>FY-2012</u>      | <u>FY-2013</u>      |
|--------------------------|---------------------|---------------------|---------------------|---------------------|
| Draw Sales:              |                     |                     |                     |                     |
| Powerball PowerPlay      | \$38,800,000        | \$39,000,000        | \$40,000,000        | \$41,000,000        |
| Wild Card                | 2,800,000           | 2,800,000           | 2,900,000           | 2,950,000           |
| Idaho Pick 3             | 1,800,000           | 1,850,000           | 2,000,000           | 2,100,000           |
| Hot Lotto Sizzler        | 4,200,000           | 4,250,000           | 4,400,000           | 4,450,000           |
| Raffle                   | 4,000,000           | 4,000,000           | 4,000,000           | 4,000,000           |
| Double Play Daily        | 2,500,000           | 2,500,000           | 2,500,000           | 2,500,000           |
| New Draw Game            | <u>300,000</u>      | <u>2,000,000</u>    | <u>2,500,000</u>    | <u>3,500,000</u>    |
| Total Draw Sales         | 54,400,000          | 56,400,000          | 58,300,000          | 60,500,000          |
| Scratch™ Game sales      | 89,400,000          | 91,000,000          | 93,000,000          | 94,500,000          |
| PullTab sales            | <u>2,500,000</u>    | <u>2,600,000</u>    | <u>2,700,000</u>    | <u>3,000,000</u>    |
| Total Sales              | 146,300,000         | 150,000,000         | 154,000,000         | 158,000,000         |
| Other Revenue            | 700,000             | 750,000             | 800,000             | 850,000             |
| Total Expenditures       | 110,500,000         | 113,750,000         | 117,300,000         | 120,850,000         |
| Net Income               | <u>\$36,500,000</u> | <u>\$37,000,000</u> | <u>\$37,500,000</u> | <u>\$38,000,000</u> |
| <b>DIVIDEND ESTIMATE</b> | <b>\$36,500,000</b> | <b>\$37,000,000</b> | <b>\$37,500,000</b> | <b>\$38,000,000</b> |

## Peer Benchmark Measures:

|   | FY09         |         | FY08        |         | FY07        |         | FY06        |         | FY05        |         |
|---|--------------|---------|-------------|---------|-------------|---------|-------------|---------|-------------|---------|
|   | PEER GROUP** | IDAHO   | PEER GROUP* | IDAHO   | PEER GROUP* | IDAHO   | PEER GROUP* | IDAHO   | PEER GROUP* | IDAHO   |
| SALES PER CAPITA                              | -            | \$91.63 | \$101.43    | \$89.80 | \$100.05    | \$88.92 | \$99.31     | \$89.33 | \$88.28     | \$81.07 |
| ADMINISTRATION COSTS AS A PERCENTAGE OF SALES | -            | 6.7%    | 8.4%        | 6.8%    | 8.1%        | 7.6%    | 8.4%        | 8.0%    | 8.7%        | 9.1%    |
| DIVIDEND AS A PERCENTAGE OF SALES             | -            | 25.1%   | 24.6%       | 25.4%   | 24.6%       | 26.0%   | 24.0%       | 25.1%   | 23.6%       | 22.9%   |
| DIVIDEND INCREASE PERCENTAGE                  | -            | 0.7%    | 2.0%        | 2.2%    | 0.4%        | 0.4%    | 7.7%        | 26.9%   | 3.1%        | 4.0%    |

\* PEER GROUP INCLUDES - KANSAS, MAINE, MINNESOTA, MONTANA, NEBRASKA, NEW MEXICO, SOUTH DAKOTA, TENNESSEE AND VERMONT

\*\*PEER GROUP FIGURES UNAVAILABLE AT THIS TIME

## National Benchmark Measures:

FISCAL YEAR 09

|              | SCRATCH | DRAW   | TOTAL  | DIVIDEND |
|--------------|---------|--------|--------|----------|
| IDAHO        | 4.75%   | -3.85% | 2.04%  | 0.70%    |
| USA FORECAST | 1.44%   | -4.40% | -1.37% | -3.36%   |

Source: National Association of State and Provincial Lotteries – April 2009 survey

## VI. External Factors

### Health of the Overall Economy

As the economy continues to seek recovery, it appears that as a method of cutting back personal expenses, Americans are reducing their spending on lottery products. A recent Ipsos Reid\* survey conducted in March 2009 among North American lottery players indicated that nearly half (46%) have reduced their lottery spending, with 38% admitting to spending less on lottery games and 8% cutting them out entirely. Lottery players seem to be employing a similar coping strategy as average Americans are when it comes to the purchase of non-essential, low cost items.

Additionally, Gallup\* polling conducted in June 2009 shows that Americans are closely monitoring their daily family expenditures, with 71% saying they are cutting back on their spending and 88% saying they are watching their spending very closely. These self-reports confirm the finding from Gallup's Daily tracking of consumer spending, which

shows that average daily expenditures are down significantly from where they were a year ago.

\*Sources: Ipsos Reid – March 16-19, 2009 among 1,007 U.S. adults (18+) selected randomly across the nation  
Gallup Daily Tracking – June 8-27, 2009, among 2,380 adults (18+) selected randomly across the nation

While the Idaho Lottery posted a modest 2% increase in top-line revenue in Fiscal Year 2009, we will not ignore the potential consequence of this marked change in consumer behavior and its effect on our ability to deliver sales forecasts. Until general economic conditions improve, we face significant challenges going forward in responsibly growing the dividend for our beneficiaries.

### **Jackpot Dependency**

One significant external factor that is out of our control and may affect performance to plan is jackpot dependency. Sales of big bloc, jackpot draw-style games such as *Powerball* are directly related to the size of the jackpots. Higher draw-style game sales as a percentage of total sales have an inordinately positive impact on the dividend because they deliver significantly higher gross margins. As noted below, jackpot size determines the volume of purchases from infrequent and group-play players.

#### **POWERBALL JACKPOTS**

| YEAR | AVERAGE<br>ESTIMATED<br>JACKPOT PER<br>DRAW | AVERAGE SALES<br>PER DRAW | ANNUAL SALES |
|------|---|---------------------------|--------------|
| 2009 | \$68,605,769                                | \$353,725                 | \$36,787,378 |
| 2008 | \$71,146,154                                | \$379,533                 | \$39,471,389 |
| 2007 | \$69,694,286                                | \$368,196                 | \$38,292,403 |
| 2006 | \$82,342,192                                | \$429,896                 | \$44,709,233 |
| 2005 | \$49,202,885                                | \$288,849                 | \$30,040,342 |
| 2004 | \$62,099,048                                | \$342,257                 | \$35,594,769 |
| 2003 | \$49,337,500                                | \$303,631                 | \$31,577,648 |

As mentioned above, we are addressing jackpot dependency and its impact on predicting draw-style game revenue through product bundling, augmentation of the draw-style game portfolio of products, and reinvigorated brand marketing of the draw-style games by leveraging the strength of the *Powerball* brand.

Other external factors that may impact our ability to deliver performance to plan include, but are not limited to, unpredictable increases in fuel and energy prices and their impact on player disposable income, further deterioration of general economic conditions, our ability to be nimble in responding to rapidly changing retail market conditions, unintended adverse changes to our business model as a result of legislative action, terrorism, war, and Acts of God.